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ARBOR MEMORIAL SERVICES INC.

Annual Report 2003

Since 1996,
the cover of our annual report has featured a variety of ancient funerary artifacts. From an Egyptian mummy mask to the shell mosaic figure found in Belize on this year's cover, we have displayed the distinctive burial and funerary customs of various cultures throughout history.

At Arbor Memorial Services, we are committed to providing products and services that reflect the diverse requirements of the families we serve.

CORPORATE PROFILE Arbor Memorial Services Inc. ("Arbor" or the "Company") is a Canadian market leader in providing interment rights, cremations, funerals and associated merchandise and services to customers across Canada. Arbor owned 41 cemeteries, 27 crematoria and 91 funeral homes (including 4 partially-owned funeral homes) in communities in eight provinces of Canada at October 31, 2003. The Company's cemeteries and funeral homes have been successful in developing and providing customized products and services to many ethnic and religious groups in Canada.

COVER IMAGE *The shell mosaic figure with jade ear ornaments was probably a pendant, placed atop the chest. It was excavated by Royal Ontario Museum archaeologists at the Altun Ha site in Belize from the grave of a mature adult male.*

ca. 650 AD Kankin Phase

With permission of the Royal Ontario Museum©ROM.

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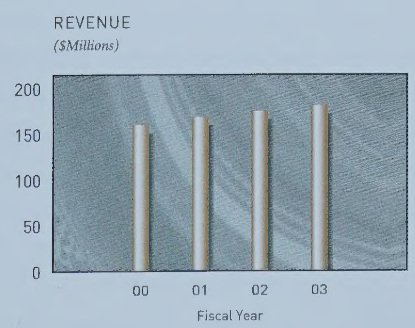
Company Highlights

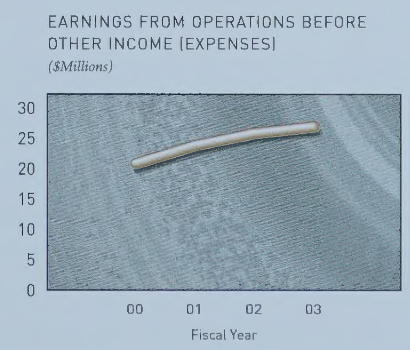
YEARS ENDED OCTOBER 31	**2003**	2002	2001
OPERATIONS			
Revenue ($000)	**180,899**	174,676	168,510
Earnings from operations before other income (expenses) ($000)	**27,610**	26,022	24,073
Net earnings ($000) [(1)]	**25,368**	15,982	7,193
Cash flow from operating activities ($000)	**22,330**	10,570	14,587
EARNINGS PER SHARE AND NUMBER OF SHARES OUTSTANDING			
Earnings per share ($) [(1)]	**2.39**	1.51	0.68
Weighted average number of shares outstanding (000)	**10,595**	10,595	10,595
MAJOR RESOURCES			
Cemeteries	**41**	41	40
Crematoria	**27**	27	27
Funeral homes	**91**[(2)]	93	92
Care funds ($000)	**124,379**	116,311	106,379
Total assets ($000) [(3)]	**758,201**	709,178	670,315

[1] Net earnings excluding unusual items for 2003 were $14.0 million or $1.31 per share (2002 - $12.9 million or $1.21 per share; 2001 - $11.3 million or $1.07 per share). Unusual items included the impact of other income (expenses) from all years, the effect of future income tax rate changes from 2002 and 2001 and goodwill amortization from 2001.

[2] This figure included four funeral homes in which the Company had an interest of 48%.

[3] Total assets were restated to conform to current year's presentation.





Report to Shareholders

2003 WAS ANOTHER SOLID YEAR FOR ARBOR. DESPITE AN UNEXPECTED DECLINE IN THE NUMBER OF DEATHS IN CANADA, THE COMPANY ACHIEVED RECORD OPERATING EARNINGS, REDUCED DEBT SIGNIFICANTLY AND CONTINUED TO INVEST IN THE FUTURE.

FINANCIAL PERFORMANCE

- Record total revenue of $180.9 million, up 4% from 2002. Both the cemetery and funeral divisions contributed to this increase.

- Record investment and other income of $13.3 million, up 11% from 2002.

- Earnings per share increased 58% to $2.39 in 2003 from $1.51 in 2002. Earnings per share, excluding unusual items from both years, were $1.31 per share in 2003 compared to $1.21 per share in 2002. Unusual items included other income (expenses) in both years and future income tax rate changes in 2002. This was the third consecutive year of increased earnings per share on a consistent basis. Over the last 3 years, earnings per share excluding unusual items, which were other income (expenses), future income tax rate changes and goodwill amortization, increased by 70%.

	2003	2002	2001	2000
Earnings per share excluding unusual items	**$1.31**	$1.21	$1.07	$0.77

- Long-term debt was reduced by 14% to $83.2 million from $96.8 million a year ago. As a result, the debt to equity ratio was reduced from 0.83:1 to 0.59:1.

- Shareholders' equity increased 21% to $141.3 million from $116.7 million at the end of 2002.

- Share prices continued to increase in 2003. Over a 3-year period, the price of the Class A shares increased by 107% while the Class B shares advanced by 143%.

OCTOBER 31		**2003**	2002	2001	2000
Market Price	- Class A voting	**$14.50**	$12.50	$12.00	$7.00
	- Class B non-voting	**$13.50**	$12.50	$12.50	$5.55

OTHER DEVELOPMENTS

- In 2002, the Company reached a settlement with the Canada Customs & Revenue Agency ("CCRA") with respect to reserves claimed on the sale of interment rights for the years 1987 to 2000. As a result of this settlement, the Company received $11.2 million from the federal and provincial tax authorities in 2003. In addition, the Company expects to receive an additional $2.5 million in 2004.

> WE BEGIN 2004 WITH MOMENTUM, ENTHUSIASM AND CONFIDENCE ABOUT THE FUTURE. WE STRONGLY BELIEVE OUR BEST DAYS ARE AHEAD OF US.

- On December 13, 2002, the new Funeral, Burial & Cremation Services Act (the "Act") received Royal Assent. The new Act permits funeral homes to be located on cemetery property. The next step is for Ministry staff, in cooperation with the industry, to develop regulations. Unfortunately, this process has been delayed due to the election and change of Government in Ontario. However, we remain confident that this process will be completed successfully. Currently, Ontario and Prince Edward Island are the only two provinces that prohibit funeral homes from being located on cemetery property. Combining a funeral home and a cemetery provides important consumer benefits, improves cost efficiency, and has proven to be very successful for Arbor in other provinces. Ontario is a critical market for Arbor as 21 of the Company's 41 cemeteries are located in this province.

- In May 2003, the Company sold 97 acres of surplus land for $20.0 million. The net gain on the sale after income taxes and selling costs was $10.1 million. Consideration for the sale was comprised of $6.5 million in cash and a mortgage receivable of $13.5 million for four years at an interest rate of 5%.

INVESTMENT IN THE FUTURE

While consistent growth in revenue and earnings is an important objective for the Company, our major emphasis is on building for the future and enhancing long-term shareholder value.

In 2003, the Company made a number of significant investments to enhance future performance.

- Pre-need cemetery arrangements contracted during the year achieved a new record of $65.0 million, up 4% from 2002. The total undelivered pre-need cemetery contracts and associated investment income accumulated at the end of 2003 was $280.7 million, the equivalent of 3.4 years of 2003 cemetery sales.

- Pre-need funeral arrangements contracted during the year achieved a new record of $44.4 million, up 3% from 2002. Since these contracts are not included in the Company's reported sales until the funerals are performed, they have no immediate impact. However, they do contribute to building future market share, and enhancing future financial performance. The total undelivered pre-need funeral contracts and associated investment income accumulated at the end of 2003 was $279.4 million, the equivalent of 3.3 years of 2003 funeral sales.

- A 3,862-crypt mausoleum addition was opened at Glendale Memorial Gardens in Northwest Toronto, the Company's largest cemetery.

- A 2,567-crypt mausoleum addition was opened at Highland Memory Gardens in Northeast Toronto, the Company's second largest cemetery.
- The Company continued the development phase of a "state of the art" computer system that will replace the existing cemetery and funeral operating systems early in fiscal 2005.
- The Company began construction of an 18,000 square foot chapel and reception centre, and a 728-crypt and 640-niche mausoleum addition at Glen Oaks Memorial Gardens in Oakville.

OUTLOOK

We begin 2004 with momentum, enthusiasm and confidence about the future. We strongly believe our best days are ahead of us. Our bullish outlook is based on a number of positive factors. An aging population and consistent increases in the projected deaths in Canada will expand the market for Arbor's products and services. As the market leader in Canada, Arbor is in an excellent position to capitalize on this market growth. It is the only Company with a broad scale presence in both the funeral and cemetery sectors of the industry in Canada, which results in considerable synergy that is not available to other industry participants.

Over the years, Arbor has placed major emphasis on pre-need sales for future delivery, significant investment in new facilities and other initiatives to participate in the growth of the total market and increase market share.

Arbor is in sound financial condition, has a strong management team and is well positioned for continued growth in revenue, earnings and shareholder returns.

I want to thank our Board of Directors for their continued wisdom and guidance and the Company's over 1600 employees across Canada for their commitment and dedication to our business.

We also thank you, our shareholders, for your continued support.

On behalf of the Board,

RICHARD D. INNES
President and Chief Executive Officer

Operations

ARBOR'S BUSINESS

The Company

Arbor Memorial Services Inc. is a Canadian company incorporated in Ontario which, through wholly owned subsidiaries, is a market leader in providing interment rights, cremations, funerals and associated merchandise and services to customers across Canada. The Company owns 41 cemeteries, 27 crematoria and 91 funeral homes (including 4 partially-owned funeral homes) in communities in eight provinces of Canada.

Arbor is the successor to a business formed in 1947 to establish a national system of garden cemeteries in which the beauty of the gardens was enhanced by careful landscaping and the use of memorials set flush with the ground. In the 1980's, Arbor began to provide funeral as well as cemetery services, both at the time of need and on a pre-need basis. The Company's cemeteries and funeral homes have been successful in developing and providing customized products and services to various cultural and religious groups in Canada.

Another premise of the Company was to develop the "pre-need" concept, which enables consumers to make their cemetery and/or funeral arrangements in advance, thereby avoiding additional emotional and financial stress during a time of bereavement. The Company believes that it is an industry leader in marketing pre-need cemetery and funeral arrangements, an integral part of Arbor's long-term business strategy.

Cemetery Operations

Cemeteries and crematoria offer a variety of products and services that include interment rights (ground burial, mausolea, columbaria and cremation gardens), bronze memorials, upright monuments, vaults, urns, interment services, cremation services and other related merchandise and services. The Company offers a complete range of options for personalized memorialization and prides itself on providing the best quality products and services to its customers. In fiscal 2003, cemetery operations sales accounted for 45.7% of the Company's total revenues and cemetery investment and other income accounted for an additional 4.7% of total revenues.

The cemetery properties range in size from approximately 20 to 230 acres and are staffed by permanent maintenance, administrative and sales personnel. At October 31, 2003, the Company's developed and undeveloped cemetery land totalled approximately 2,700 acres. Approximately 41% of the total acreage was available for future development.

The Company's growth in the cemetery segment is focused on development of new cemeteries and reception centres and expanding existing locations where warranted.

Funeral Operations

Funeral homes provide a range of services that include embalming, registration of death, the use of funeral home facilities for visitation, memorial services, funeral receptions, transportation services, cremation and the sale of caskets, urns, flowers and other related merchandise. Most Arbor funeral homes have comfortable reception lounges with fully equipped kitchens and extensive seating. In fiscal 2003, funeral operations sales accounted for 46.7% of the Company's total revenues and funeral investment and other income accounted for an additional 2.4% of total revenues. The majority of the Company's facilities are owned by its subsidiaries rather than being leased.

The Company's growth in the funeral segment is focused on construction of new funeral homes and expanding existing locations where warranted. The establishment of funeral homes and reception centres

on cemetery properties is a priority, especially in Ontario where legislative changes are in process to allow a funeral home to operate on a cemetery property.

Employees

At October 31, 2003, the Company employed 1,644 people, including 97 employees at the Company's head office location in Toronto, Ontario. Labour unions or collective bargaining units represented 5.4% of the Company's employees. The Company strives to provide a good working environment for its employees and as a result, the Company believes that it maintains good employee relations.

DEATH CARE INDUSTRY AND COMPETITION

Cemetery Division

In Canada, cemetery operations are owned and provided by a large number of religious, ethnic and fraternal organizations, municipal governments and other "not-for-profit" organizations in addition to commercial owners. Two large multi-national firms own a number of cemeteries in Canada; however, their presence in the cemetery business is significantly less than in the funeral business. In addition, the Company competes with monument dealers and other providers of cemetery products and services. Cemeteries generally range in size from under one acre to over 200 acres.

Only a small number of organizations have developed large modern cemeteries and even fewer provide a full range of services due to the significant barriers to entry. Specifically, entry into the cemetery industry can be difficult due to:

- complex cemetery regulations and zoning restrictions;
- the significant capital investment required and high land values in metropolitan areas;
- land for new cemetery development being difficult to locate; and
- the desire for families to return to the same cemetery for generations.

Arbor competes in the cemetery segment by presenting well-maintained premises and a wide variety of burial space selection. In addition, the Company strives to provide products and services that appeal to the different cultural backgrounds of its customers. There is active competition in every major community in which Arbor operates cemeteries. Arbor is highly competitive in every market in which it operates.

Funeral Division

Although Arbor competes with two large multi-national firms that operate funeral homes in Canada, small independently owned firms, controlling one or two funeral homes, account for the largest number of funeral home operators in Canada. The Company also competes with casket retailers and discount funeral providers in certain of its markets. The Company estimates that it performs approximately 8% of all funeral services provided in Canada.

Barriers to entry are high due to the significant capital investment required, increasing regulatory complexity and the importance of an established reputation in competing for market share.

Throughout most of the 1980's and 1990's, the Company and its competitors engaged in the acquisition of independently owned firms. However, this trend slowed in early 1999 when the Company and its competitors generally applied lower valuation criteria and many potential sellers withdrew their businesses from the market rather than pursuing transactions at lower prices.

Arbor competes in the funeral segment by providing unique, personalized funeral services and by offering well-maintained, attractive facilities that cater to its customers' requirements. The Company's objective is to be first or second in terms of market share in every market in which it competes. In large part, the Company has been able to achieve this objective.

INDUSTRY TRENDS

Establishment of new cemeteries: The establishment of individual cemeteries by religious, ethnic and fraternal organizations and municipal governments has declined. Many existing religious cemeteries are nearing full capacity and few religious organizations have the funds to acquire new cemetery facilities. In general, the interest of municipal governments in fulfilling the requirement for cemetery facilities has been declining.

Cremation: There has been a growing acceptance of cremation as an alternative to traditional burial in Canada and internationally. In 1995, the number of cremations represented 38% of total Canadian deaths. This percentage grew to 48% in 2000 and is expected to grow to at least 65% by 2010.

While cremation was originally seen as a less costly alternative to traditional burial, it is increasingly accompanied by traditional funeral services and memorialization. Cremation also provides the Company with an opportunity to better serve its families by offering unique products and services. Arbor has been developing cremation gardens in a number of its cemeteries. These gardens are pleasantly landscaped with flowers, trees, shrubs, walkways, waterfalls and ponds. They provide the Company's customers with alternatives for burial or scattering, and can be accompanied by various other memorial products such as benches, pedestals, rocks, trees and memorial walls.

Need for products and services: There is an inevitable need for the products and services the industry offers. In addition, the number of deaths in Canada is expected to increase at a steady, moderate pace. Annual population estimates by Statistics Canada indicate that Canada's population is growing by approximately 1% annually. More specifically, seniors aged 65 and older accounted for 13% of the total Canadian population in 2001 and this percentage is expected to reach 15% by 2011.

ARBOR'S STRATEGY

Competitive Strengths

Industry leader: Arbor is the leading provider of funeral and cemetery products and services in Canada and has been in business for over 50 years.

Experienced senior management team: Arbor's senior management team has been with the Company for an average of 25 years and has a wealth of knowledge and history with the Company.

Focus on high quality customer service and facilities: Arbor has been providing its customers with high quality service for many years. The Company believes that it operates one of the premier death care facilities in each of its principal markets and that it provides superior funeral and cemetery services that exceed customer expectations.

Funeral homes and reception centres located on cemetery properties: Locating funeral homes and reception centres on cemetery properties allows the Company to provide superior customer service. On-site funeral and reception operations provide families with the convenience of complete death care services at a single location and provide the Company with the ability to share certain costs and resources. Approximately one-third of the Company's cemeteries have a funeral home on-site and the Company currently

has one reception centre on a cemetery in London, Ontario and is in the process of constructing a second reception centre on a cemetery in Oakville, Ontario.

National presence in both the cemetery and funeral sectors of the death care industry: The Company's national presence in both the cemetery and funeral sectors allows for sharing of certain costs and resources and referral opportunities between sectors.

Established base of pre-arranged services: Arbor has a significant history in pre-arrangement of products and services. Pre-need planning enables families to specify their preferred cemetery and funeral products and services in advance and to pre-pay for these products and services in order to reduce emotional and financial stress at the time of bereavement. Arbor's focus on pre-need business is also important to the Company's results since these sales generate future revenues. As at October 31, 2003, the Company had deferred revenue to be recognized in future periods of $560 million, of which $281 million was cemetery and $279 million was funeral. Deferred revenue for the cemetery and funeral divisions represented 3.4 and 3.3 years of 2003 sales respectively.

Key Objectives

Arbor has three key objectives:

- to generate a return to shareholders that exceeds the Company's cost of capital;
- to maintain Arbor's Canadian market leadership position in combined cemetery/funeral revenue; and
- to generate consistent growth in earnings per share with a limited risk profile.

Business Strategies

Service: One of the Company's most important strategies is to meet or exceed customer expectations with respect to the delivery of cemetery and funeral products and services, thereby exceeding the standard set by the competition.

Properties/facilities: Another of Arbor's market strategies is to meet or exceed the major competition in terms of the quality of each cemetery and funeral home it owns and operates. One exception to this basic strategy is where a facility has been specifically designed to service the lower-priced market segment. The Company currently operates few facilities in the lower-priced market segment.

Future investments: The Company's present priorities for future investments are:

- to establish funeral homes and reception centres within its cemeteries or as stand-alone facilities in communities where there is market justification and where they will achieve the goal of complete service to customers;
- to acquire property to expand existing cemeteries or develop new cemeteries;
- to continue to develop new products and services that meet the unique needs of the many cultures and religious groups the Company serves; and
- to establish or expand facilities to service the growing cremation market.

Asset management: Arbor strives to achieve a return that exceeds the Company's cost of capital, both on a consolidated basis and a location-by-location basis.

Continued focus on pre-need sales: The Company intends to continue to emphasize pre-need arrangements in order to better serve its customers and to generate future revenues.

COMPANY AND INDUSTRY RISKS

Risks Related to the Company's Business

Interest rates: Increases in interest rates would increase the interest cost of the Company's variable rate long-term debt and have an adverse effect on the Company's net income and earnings per share. As at October 31, 2003, the Company had $37 million, or 45%, in variable rate long-term debt. Therefore, a 1% increase or decrease in the market interest rate could impact the Company's annual interest expense by approximately $0.4 million.

Market factors: A weakening economy could cause the Company to experience a decline in pre-need arrangements. A decline in pre-need cemetery arrangements would reduce the amount of revenue and net earnings the Company recognizes each year as a result of a decrease in burial space sales. In addition, a decrease in pre-need arrangements of cemetery products and services and funeral products and services would reduce the Company's accumulation of deferred revenue to be recognized in future years.

Competition: Price competition, increased advertising, better marketing or improvements in products and services offered by competitors in any market in which Arbor competes, could reduce the Company's market share or cause the Company to reduce prices or incur increased costs in order to retain or recapture market share, either of which could reduce revenues and margins.

Trust and Care Funds: Earnings from pre-need funeral and cemetery funds and care funds could be reduced by changes in stock and bond prices, and interest and dividend rates. Investment earnings and gains/losses on trust and care funds are affected by financial market conditions that are not within the Company's control. Earnings are also affected by the mix of fixed-income and equity securities that the Company has in the funds, and it may not choose the optimal mix for a particular market condition. A decline in earnings from pre-need trust funds would cause a decrease in future revenues. A decline in earnings from care funds would cause a decrease in current revenues.

Risks Related to the Company's Industry

Decline in number of deaths: A decline in the number of deaths in any of the Company's markets could cause a decrease in revenues. Changes in the number of deaths are not predictable over the short-term or from market to market.

Cremation: The increasing number of cremations in Canada could cause revenues to decline since the average revenue received from a cremation arrangement is generally lower than that received from a traditional arrangement.

Regulations: Changes in regulations applicable to the Company's business could increase costs, or require changes to business administration or operational practices. The death care industry is subject to extensive regulation and licensing requirements under federal, provincial and local laws. From time to time, various governments and agencies amend or add regulations, which could increase the Company's cost of operations.

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

Revenue for the year ended October 31, 2003 was $180.9 million. This represented a $6.2 million or 3.6% increase from 2002. Sales in both the cemetery division and the funeral division increased by 3.0%, while investment and other income increased by 11.0%. Following is a breakdown of total revenue.

	2003		2002	
	$Millions	**% of Total**	$Millions	% of Total
Sales				
Cemetery	**82.6**	**45.7**	80.2	45.9
Funeral	**84.4**	**46.7**	81.9	46.9
Corporate	**0.6**	**0.3**	0.6	0.3
	167.6	**92.7**	162.7	93.1
Investment and other income	**13.3**	**7.3**	12.0	6.9
	180.9	**100.0**	174.7	100.0

Investment and other income increased by $1.3 million or 11.0% to $13.3 million in 2003. The largest contributor to the increase was care fund income as follows.

	Increase $Millions
Care fund income	0.6
Pre-need funeral fund income	0.4
Pre-need cemetery fund income	0.2
Other income	0.1
	1.3

The increase in care fund income was due to higher average care funds on deposit in 2003. The average balance of care funds increased by $9.0 million or 8.1%. The higher pre-need funeral fund income was due to improved sales of pre-need funeral contracts that were deposited under the group annuity program.

Operating expenses increased by $5.3 million or 3.9%, due largely to regular annual increases in employee costs and an increase in the cost of sales in both the cemetery and funeral divisions due to the increase in sales as well as a change in the mix of sales.

General and administrative expenses decreased by $0.7 million or 5.0% to $12.3 million, largely due to a change in bonus accruals from 2002, the receipt of $0.2 million from Service Corporation International (SCI) due to the settlement in the Company's favour of the costs of defending itself in a prior year's lawsuit and the favourable reassessment of prior years' capital taxes in Quebec. As a percentage of revenue, general and administrative expenses decreased to 6.8% from 7.4% in 2002.

Earnings from operations before other income (expenses) were $27.6 million, which represented an increase of $1.6 million or 6.1% compared to 2002. The increase was mostly attributable to the improved sales in the funeral division and the lower general and administrative expenses.

Other income (expenses) increased by $11.7 million over 2002. The increase was largely due to the $15.9 million gain on sale of approximately 97 acres of surplus land in Markham, Ontario, but was offset by lower interest income recorded on the settlement of prior years' reassessments of income taxes and a higher provision for asset impairment compared to 2002.

The land in Markham was sold for $20.0 million, including cash proceeds of $6.5 million and vendor financing of $13.5 million. The net gain on sale of land after income taxes and selling expenses was $10.1 million.

The net interest income of $2.4 million recorded in connection with the settlement of prior years' reassessments of income taxes in 2003 was related to reserves claimed on the sale of interment rights for fiscal years 1987 to 2000 and was in addition to the $4.7 million recorded in 2002. The additional income was mainly due to credit interest on funds placed on deposit in excess of what was required pursuant to the settlement as well as a delay in the receipt of refunds from the federal and provincial taxation authorities.

The provision for asset impairment in 2003 of $1.6 million included $0.8 million due to the early adoption of the new "Impairment of Long-Lived Assets" accounting standard. This provision was related to the operations of one cemetery and a portion of cemetery land held for future development at another cemetery. The loss in value of the cemetery resulted from the continuing under-performance of the operation and an analysis of the cash flows of the cemetery land held for future development revealed that the fair market value of the land was below carrying value. The provision for asset impairment also included $0.4 million related to the carrying value of goodwill of three funeral home operations and $0.4 million related to the carrying value of cemetery crypt and niche inventory. The provision for asset impairment recorded in 2002 was related to the carrying value of an investment in an associated corporation.

Interest expense, which includes interest rate swap costs, increased $0.4 million or 10.1% to $4.9 million in 2003 due to higher floating interest rates in the year, a higher ratio of fixed to floating rate debt throughout the year and a $0.1 million bank management fee incurred upon renegotiation of the Company's bank debt agreements. The weighted average rate of interest on long-term debt for the year was 5.3% compared to 4.6% in 2002. The cost of the interest rate swaps was $1.1 million, compared to $1.3 million in 2002. The proportion of fixed rate debt at the end of 2003 was 55% compared to 48% at the end of 2002.

Income taxes for 2003 resulted in an effective tax rate of 35.8%, compared to 40.0% in 2002. The 4.2 percentage point decrease in the effective tax rate was largely due to a 2.2 percentage point decrease in the combined federal and provincial tax rates and a 2.0 percentage point decrease as a result of the settlement of prior years' income taxes.

Net earnings and earnings per share on a comparative basis, excluding unusual items from both years, were $14.0 million and $1.31 per share in 2003 compared to $12.9 million and $1.21 per share in 2002. Unusual items included other income (expenses) in both years and future income tax rate changes in 2002. The increase was largely due to higher sales and investment income in the funeral division, lower corporate costs and a lower effective income tax rate.

CEMETERY DIVISION

Cemetery sales in 2003 increased by $2.4 million or 3.0% over 2002 to $82.6 million. The increase in sales was largely due to a $1.5 million increase in pre-need sales of crypt spaces, a $1.1 million increase in deliveries of at-need granite bases and an increase of $0.6 million in deliveries of upright monuments sold on an at-need basis. These increases were offset by a decrease of $1.8 million in the delivery of bronze memorials sold on a pre-need basis due to an administrative effort in 2002 to reduce the number of outstanding customer orders.

Sales in the year, net of cancellation allowances where applicable, consisted of:

- $29.7 million (2002 - $28.1 million) of pre-need sales of interment rights;
- $22.6 million (2002 - $22.4 million) of pre-need sales of merchandise and services at the point when merchandise was delivered or services were performed, including income earned on pre-need trust funds;
- $30.3 million (2002 - $29.7 million) of at-need sales of interment rights and deliveries of at-need merchandise and services.

The following table provides a percentage breakdown of cemetery sales.

Cemetery Products and Services

	2003	2002
	%	%
Interment Rights		
Burial lots	**19**	19
Crypts and niches	**26**	25
	45	44
Products		
Memorials, bases and monuments	**33**	34
Vaults and liners	**4**	4
Urns	**3**	4
Other	**3**	2
	43	44
Services	**12**	12
Total	**100**	100

Total pre-need cemetery sales contracts written in the year were $65.0 million, compared to $62.5 million in 2002. This represented an increase of $2.5 million or 4.0%.

In 2003, the number of interments performed by the Company increased by 2.4% to 16,763 and the number of cremations increased by 6.3% to 13,798.

The Company has experienced significant increases in cremation volume over the last three years, while the volume of interments has increased at a lower rate. The Company has focused on enhancing cremation memorialization by offering additional merchandise and services.

Accumulated deferred pre-need cemetery revenue at October 31, 2003 was $280.7 million, which represented an $11.8 million or 4.4% increase over 2002. The accumulation of deferred revenue to be recognized in future years equates to 3.4 years of 2003 sales (2002 – 3.4 years).

Investment income on care funds and pre-need cemetery funds increased by $0.8 million or 9.9% over 2002 to $8.5 million in 2003, due to an increase in the funds in trust. The average balance of care funds increased by $9.0 million or 8.1%, while the average balance of pre-need funds increased by $17.3 million or 15.2%. The average rate of return on these funds was relatively consistent in both years.

Earnings from cemetery operations before other income (expenses) increased marginally to $13.1 million in 2003, which was the net impact of a $2.4 million increase in sales, a $0.8 million increase in investment income and a $3.1 million increase in expenses. Expenses increased 4.2%, due largely to a higher cost of sales, higher employee costs due to annual increases and higher benefit costs and increased fuel and electricity costs. The cost of sales percentage was 0.3 of a percentage point higher than in 2002, due largely to a 10.1% increase in crypt sales as crypts have one of the highest cost of sales percentages.

Other income (expenses) in 2003 was a net gain of $14.7 million, compared to a net gain of $0.4 million in 2002. The net gain in 2003 was largely the result of the sale of land in Markham, Ontario but was offset by a $1.2 million provision for asset impairment. The net gain in 2002 was largely the result of the sale of two parcels of surplus land.

Earnings from cemetery operations for the year ended October 31, 2003 were $27.8 million. This represented an increase of 106.7% over 2002.

FUNERAL DIVISION

As at October 31, 2003, the Company wholly-owned 87 funeral homes and had an equity interest in four funeral homes. In the year, the Company disposed of one funeral home in St. Georges, Quebec and its equity interest in another funeral home in Port Colborne, Ontario.

Funeral sales in 2003 increased by $2.5 million or 3.0% over 2002, to $84.4 million. The improvement was attributable to a 1.2% increase in the number of funeral services performed and a 1.6% increase in the average sale per funeral service.

Sales in the year consisted of:

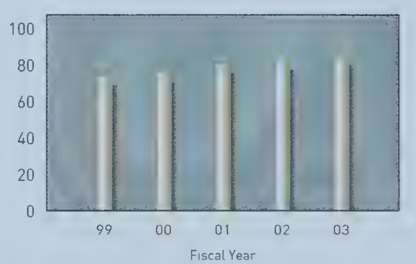
- $59.9 million (2002 - $59.8 million) of at-need sales of funeral merchandise and services;
- $24.3 million (2002 - $22.1 million) from the fulfilment of merchandise and services sales that were arranged on a pre-need basis; and
- $0.2 million (2002 - $nil) of flower shop sales.

The number of funeral services performed at wholly-owned funeral homes that existed throughout both 2002 and 2003 increased by 0.7% to 18,120 services. The average sale per funeral service increased by 1.7% on a same funeral home basis.

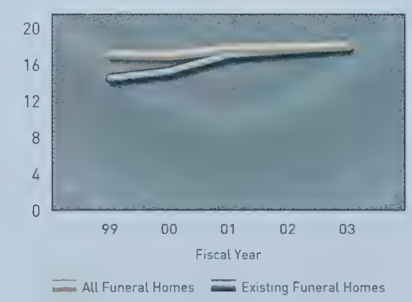
The Company's focus on pre-need funeral arrangement growth caused deferred revenue, including investment income on trust and group annuity funds, to increase by $22.9 million or 8.9% over 2002, for a total of $279.4 million at October 31, 2003. The total undelivered pre-need funeral sales accumulated at the end of 2003 translated to 3.3 years (2002 – 3.1 years) of 2003 sales. Pre-need contracts written in 2003 totalled $44.4 million compared to $43.1 million in 2002, an increase of $1.3 million or 3.0%.

Investment and other income in the funeral division increased by $0.2 million or 6.6% to $4.3 million in 2003. The improvement was attributable to an increase in the fees received from the deposit of pre-need funeral funds under the group annuity program.

FUNERAL DIVISION REVENUE
($Millions)



FUNERAL SERVICES PERFORMED
(000)



Earnings from funeral operations before other income (expenses) increased by $0.6 million or 2.4% to $25.7 million in 2003. The increase was largely attributable to improvements in sales and investment income.

Other income (expenses) in 2003 was a loss of $0.3 million compared to a loss of $0.1 million in 2002. The loss in 2003 was due to impairment in the carrying value of goodwill for three funeral operations of $0.4 million, partially offset by gains on the disposal of fixed assets of $0.1 million. In 2002, a provision for impairment in the carrying value of an investment in an associated company was recorded in the amount of $0.2 million. This provision was partially offset by gains on the disposal of fixed assets of $0.1 million.

Earnings from funeral operations for the year ended October 31, 2003 increased by $0.4 million or 1.6% to $25.4 million.

CORPORATE

Corporate revenue, consisting of rental income from leasing a portion of the Company's head office building and interest on the Company's bank accounts, short-term investments and mortgages receivable, was $1.1 million in 2003 compared to $0.8 million in 2002. The main reason for the increase was interest income received on the new mortgage receivable of $13.5 million, which was established on the sale of land in Markham, Ontario.

The Company's head office building was 100% occupied at October 31, 2003, with the Company occupying 53% of the building.

Corporate expenses decreased by $0.7 million or 5.0% to $12.3 million in 2003, largely due to a change in bonus accruals from 2002, the receipt of $0.2 million from SCI due to the settlement in the Company's favour of the costs of defending itself in a prior year's lawsuit and the favourable reassessment of prior and current years' capital taxes in Quebec. As a percentage of total Company revenue, general and administrative expenses decreased to 6.8% from 7.4% in 2002.

Interest expense includes interest on long-term debt as well as the cost of the Company's interest rate swap contracts. Interest expense increased $0.4 million or 10.1% to $4.9 million in 2003 due to higher floating interest rates in the year, a higher ratio of fixed to floating rate debt throughout the year and a $0.1 million bank management fee incurred upon renegotiation of the Company's bank debt agreements. The weighted average rate of interest on long-term debt for the year was 5.3% compared to 4.6% in 2002. The proportion of fixed rate debt at the end of 2003 was 55% compared to 48% at the end of 2002.

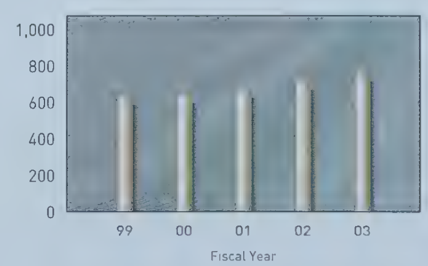
At the end of 2003, the Company had five interest rate swaps with an aggregate notional amount of $43.8 million. This compared to four interest rate swaps with a notional amount of $43.8 million at the end of fiscal 2002. As a percentage of debt outstanding, the amount under swap contracts at October 31, 2003 increased to 53% of total long-term debt compared to 48% at the end of 2002. The swaps were arranged in order to reduce the Company's exposure to variable interest rate fluctuations. The impact of the swaps was that interest rates for a portion of the Company's term loans were fixed at rates ranging from 4.6% to 6.2% plus a bank margin. Since actual floating interest rates, before bank margins, ranged between 3.4% and 4.4% during the year, the swaps caused the Company's interest expense to be higher in 2003 by $1.1 million (2002 - $1.3 million) than would otherwise have been the case if the Company had maintained all floating-rate debt. At October 31, 2003, the total unrealized loss with respect to the swaps was $2.1 million compared to $2.3 million at the end of 2002. It is management's intention to hold the swaps until their maturity.

CONSOLIDATED BALANCE SHEETS

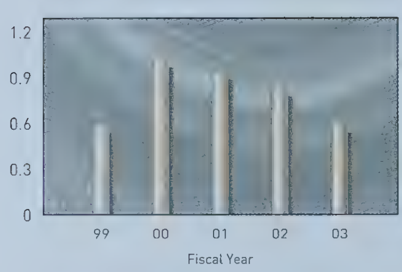
Key financial indicators for the balance sheets as at October 31, 2003 and 2002 were as follows:

	2003	2002
Current ratio	**2.35**	2.91
Debt to equity ratio	**0.59**	0.83
Long-term debt to EBITDA	**2.35**	2.89
Interest coverage ratio	**4.35**	4.32

TOTAL ASSETS
($Millions)



DEBT TO EQUITY RATIO



The current ratio decreased by 0.56 from 2002 to 2003 due largely to a $8.8 million reduction in income taxes receivable. The decrease in the debt to equity ratio and the long-term debt to EBITDA ratio were impacted by repayments of the bank term debt in 2003.

Accounts receivable arising from at-need cemetery sales were paid on average within 51 days at October 31, 2003 (2002 – 53 days). Accounts receivable arising from at-need funeral sales were paid on average within 31 days at October 31, 2003 (2002 – 30 days).

Income taxes receivable were the result of the Company's appeal of notices of reassessment for the years 1987 to 1990 with respect to reserves claimed on the sale of interment rights. In order to reduce its exposure to non-deductible interest and penalties, the Company continued to make payments based on estimates of taxes and interest that would be owing if the Company was unsuccessful in defending its position. The Company provided for taxes in its statement of earnings based on its position; however, tax remittances were made based on Canada Customs and Revenue Agency's ("CCRA's") reassessment position. The excess tax paid associated with CCRA's position was classified as income taxes receivable on the balance sheet.

In 2002, the Company reached a settlement with CCRA for the years 1987 to 2000. At the end of fiscal 2002 the Company estimated that the total excess of income tax paid, together with accumulated net interest income, was $11.3 million. In 2003, $11.2 million was received from the federal and provincial income tax authorities. In addition, based on reassessment notices received, the Company increased its estimate of the net interest income owing by $2.4 million. The additional income was mainly due to credit interest on funds placed on deposit in excess of what was required pursuant to the settlement as well as a delay in the receipt of refunds from the federal and provincial taxation authorities. Following is a reconciliation of the income taxes receivable balance (in $millions):

Income taxes receivable, October 31, 2002	$11.3
Funds received	(11.2)
Additional interest income	2.4
Income taxes receivable, October 31, 2003	$ 2.5

Pre-need receivables increased by $39.9 million or 9.8% to $446.5 million at the end of 2003. Following is a breakdown of the increase:

	Increase ($Millions)	%
Amounts due from funeral funds:		
Third-party insurers	14.6	28.1
Trust funds	7.6	4.6
	22.2	10.2
Amounts due from cemetery trust funds	15.6	12.7
Instalment accounts receivable	2.1	3.2
	39.9	9.8

Amounts due from funeral trust funds and third-party insurers increased by $22.2 million or 10.2% to $239.4 million, due largely to contributions to the funds at a higher rate than deliveries of contracts in the year and the expansion of the group annuity program to the western provinces in the latter half of 2003. The 12.7% increase in amounts due from cemetery trust funds was also due to contributions to the funds at a higher rate than the deliveries of merchandise and services.

Instalment accounts receivable increased by $2.1 million or 3.2% to $68.7 million in 2003. Approximately 59% (2002 – 56%) of these accounts receivable relate to amounts to be placed in trust and sales tax, with the Company retaining the remainder.

Crypt and niche inventory replenishment is essential to ensure that customers are offered a complete range of burial products and assists the sales force in attaining cemetery sales targets. To this end, the Company spent $11.7 million on additional crypt and niche inventory during 2003 including:

- $7.2 million for a mausoleum addition at Glendale Memorial Gardens (Northwest Toronto, Ontario);
- $2.3 million for a mausoleum addition at Highland Memory Gardens (Northeast Toronto, Ontario); and
- $1.2 million for partial construction of a mausoleum addition at Glen Oaks Memorial Gardens (Oakville, Ontario).

Cemetery land, which includes both fully or partially-developed cemetery land and cemetery land held for future development, decreased by $4.1 million to $30.2 million at the end of 2003. The decrease was largely due to the sale of approximately 97 acres of cemetery land in Markham, Ontario.

The Company spent $0.9 million on the purchase and development of land for burial gardens during 2003 including $0.3 million at Glenview Memorial Gardens in Vaughan, Ontario and $0.1 million at Rideau Memorial Gardens in Dollard des Ormeaux, Quebec.

During the year, the Company also identified impairment of a parcel of land held for future development at one cemetery, after an analysis of cash flows revealed that the fair market value of the land was below carrying value.

Capital expenditures: During the year, the Company incurred capital expenditures of $13.8 million compared to $13.1 million in 2002. Capital expenditures included $13.4 million of additions to fixed assets and $0.4 million of additions to other assets. Details of capital expenditures by segment follow:

($Millions)	**2003**	2002
Cemetery division	**6.5**	3.8
Funeral division	**6.1**	6.3
Corporate division	**1.2**	3.0
	13.8	13.1

Cemetery division expenditures in 2003 included:

- $2.5 million for the development of a reception centre at Glen Oaks Memorial Gardens in Oakville, Ontario;
- $1.3 million for development or replacement of roads and drainage;
- $1.3 million for furniture, fixtures and equipment; and
- $1.2 million for expansion, upgrade or development of branch sales and service offices.

Funeral division expenditures in 2003 included:

- $2.0 million for the purchase of the land and building of a previously leased facility;
- $1.1 million for professional vehicles;
- $0.9 million for furniture, fixtures and equipment;
- $0.7 million for the development of new funeral homes; and
- $0.7 million for the purchase of a flower shop in Hamilton, Ontario and certain assets of a funeral home in Kingston, Ontario.

Corporate division expenditures included $0.9 million for further development of a new computer system for cemetery and funeral operations and $0.2 million for computer hardware.

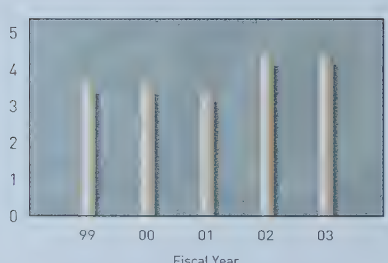
The new computer system is a proprietary solution called "Focus" that will integrate all of the Company's operating systems. Accumulated costs on the project at October 31, 2003 totalled $4.0 million and were included in fixed assets on the balance sheet under the construction in progress category. The Company anticipates that the new system will be implemented in early fiscal 2005.

Goodwill: In 2003, the Company determined that goodwill impairment of $0.4 million existed at three funeral operations. New competition and/or decreasing demand in the funeral home's market were responsible for the impairment at each operation.

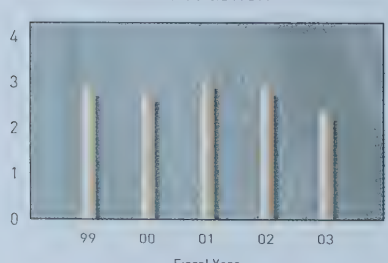
Mortgages receivable increased by $13.0 million, due largely to the new mortgage established on the sale of land in Markham, Ontario. The land was sold for $20.0 million, of which $6.5 million was received in cash while $13.5 million was a mortgage receivable with a term of four years at an interest rate of 5%. Interest only is receivable quarterly until 2007, at which time the full amount of the principal is due from the purchaser. Three mortgages also expired in the year.

Accounts payable and accrued liabilities increased by $5.3 million due largely to higher income taxes payable of $4.8 million. Included in the $4.8 million is approximately $1.9 million that is payable on the sale of the land in Markham and another $2.3 million that is payable on the net interest income received in connection with the settlement of prior years' taxes.

INTEREST COVERAGE RATIO



LONG-TERM DEBT TO EBITDA



Long-term debt at the end of 2003 was $83.2 million compared to $96.8 million at the end of 2002. Almost all of the decrease of $13.6 million was due to unscheduled principal repayments on the bank term loans. The Company was able to make these repayments due to the sale of land in Markham, Ontario and the receipt of income taxes receivable related to prior years' reassessments.

The Company has revolving term loans with two financial institutions under similar terms and conditions. The credit limit under the two facilities totals $125.0 million in addition to the operating facilities that provide credit in the amount of $14.0 million. On an annual basis, the Company is required to request an extension of the conversion date, currently set at April 30, 2004. If no extension is granted, quarterly principal payments commence within three months under one agreement and 15 months under the second agreement, both from April 30, 2004. The Company has assumed, for purposes of classifying the current portion of long-term debt, that no extension will be granted in order to present the most conservative view.

The Company has satisfied all of the debt covenants as defined in its bank loan agreements and is in good standing. Two such covenants are interest coverage and long-term debt to EBITDA. The interest coverage ratio is relative to earnings from operations before other income (expenses).

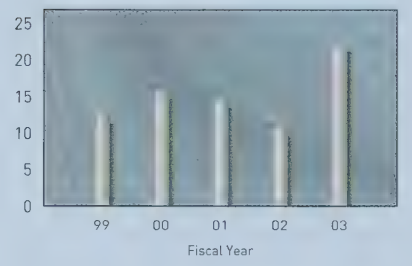
Deferred revenue increased $31.6 million or 6.8% to $497.6 million at the end of 2003. Deferred revenue represents contracted arrangements sold on a pre-need basis where the products and services have yet to be delivered to the customer. The amount of deferred revenue at October 31, 2003 is equivalent to 3.4 years and 3.3 years of current years sales for the cemetery and funeral divisions respectively, which is substantially unchanged from the end of 2002.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Cash flow from operating activities in 2003 was $22.3 million compared to $10.6 million in 2002, an increase of $11.8 million. The main reason for the increase was the receipt of $11.2 million for the settlement of prior years' reassessments of income taxes. The higher net income for the year also contributed to the increase.

Management believes that cash on hand and future cash flow from operating activities are sufficient to sustain ongoing operations as well as the routine maintenance and orderly replacement of the Company's fixed assets.

CASH FLOW FROM OPERATING ACTIVITIES



RISKS AND UNCERTAINTIES

Seasonality

While the death care industry is fairly stable and predictable, the Company's business can be affected by seasonal fluctuations in the death rate. Death rates are generally higher in the winter months.

Regulation

In November 2002, the results of the Ontario Ministry of Consumer and Business Services ("MCBS") Bereavement Sector Advisory Committee ("BSAC") were presented to the Ontario legislature as Bill 209. On December 13, 2002, the Bill received Royal Assent. The Company has played an active role on the Committee since its formation in April 2001. The legislation provides increased consumer protection as well as fostering a level playing field between participants and suggesting options for a single regulatory regime. The legislation also sets out rules for how "combinations" (funeral homes located on cemetery properties) would be permitted. The impact of combinations for the Company should be positive, as currently, Ontario and Prince Edward Island are the only provinces that do not allow funeral homes on cemetery property. When the Government proclaims the legislation, the Company will further enhance its ability to serve its customers, since 21 of the Company's 41 cemeteries are located in that province. The drafting of the regulations is underway, however, the change in Government in 2003 will likely delay their release. The estimated completion time is between twelve and eighteen months. The legislation would be proclaimed shortly thereafter.

The Government of British Columbia is drafting new consumer protection legislation and is currently in a phase of consultation with industry stakeholders. Similarly, the Alberta and New Brunswick governments are looking at revising their regulations. The Company is unsure as to what impact, if any, this will have on its operations. Early indications from Alberta are that they may implement increased administration fees, which would not negatively impact the Company as these fees have traditionally been passed on to the customer.

Due to new federal and provincial privacy legislation effective January 1, 2004, the Company plans to adopt new policies, procedures and practices intended to comply with the new legislation. While the legislation is not expected to affect the Company's statement of earnings, the Company is not in a position at this time to determine its full scope and impact since further investigation is required. Other jurisdictions are currently drafting their privacy legislation and it is unknown at this time how such legislation will impact the Company.

Environmental

Several Canadian cities in eastern Canada, including the City of Toronto, are attempting to develop pesticide by-laws that would ban or severely restrict pesticide use. The Company and its competitors are lobbying to obtain exemptions from these restrictions based on the expectations of their customers.

Environment Canada released new Canada wide standards in 2000 for allowable limits of air emissions from crematoria. Pronouncements and events over the last few years have indicated that provincial legislation will be harmonized with the federal standards; however, nothing has yet been published at the provincial level. While environmental advocates are encouraging significantly higher emission standards, it is unknown at this time how changes to provincial legislation, if any, will impact the operations of the Company.

Litigation

In 2003, the Company was charged with three consumer related offences under Alberta's Provincial Fair Trading Act. The charges stemmed from the suspect practices of a former funeral home manager in Calgary from 2000 to 2002. The former manager was also charged with fraud, false pretense and theft under the Criminal Code of Canada. Upon learning of the practices of the former manager in June 2002, the Company immediately terminated the manager's employment with the Company and brought the matter to the attention of the Alberta regulators. The Company also developed a remedial plan for the families involved, including financial restitution. The Company plans to vigorously defend itself in future court proceedings.

Management's Report

The consolidated financial statements, including the notes thereto, and other financial information contained in the annual report are the responsibility of the management of Arbor Memorial Services Inc. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles, using management's best estimates and judgements where appropriate.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Audit Committee of the Board, which is comprised of non-management directors, meets with management and the auditors to satisfy itself that these responsibilities are properly discharged and to review the consolidated financial statements and the report of the auditors. It reports its findings to the Board of Directors, which approves the consolidated financial statements.

Deloitte & Touche LLP, the independent auditors appointed by the shareholders of the Company, have audited the Company's consolidated financial statements in accordance with Canadian generally accepted auditing standards. The independent auditors have full and unrestricted access to the Audit Committee.

RICHARD D. INNES
President and Chief Executive Officer

BRIAN D. SNOWDON
Vice-President and Chief Financial Officer

Auditors' Report

We have audited the consolidated balance sheets of Arbor Memorial Services Inc. as at October 31, 2003 and 2002 and the consolidated statements of earnings and retained earnings and of cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

CHARTERED ACCOUNTANTS
Toronto, Ontario
December 5, 2003

Consolidated Statements of Earnings and Retained Earnings

YEARS ENDED OCTOBER 31 ($000)	2003	2002
REVENUE		
Sales	**167,607**	162,700
Investment and other income (note 4)	**13,292**	11,976
	180,899	174,676
EXPENSES		
Operating	**140,987**	135,700
General and administrative	**12,302**	12,954
	153,289	148,654
EARNINGS FROM OPERATIONS BEFORE OTHER INCOME (EXPENSES)	**27,610**	26,022
OTHER INCOME (EXPENSES)		
Gain on disposal of assets (note 19)	**16,010**	453
Provision for asset impairment (note 19)	**(1,614)**	(150)
Settlement of prior years' income taxes (note 16)	**2,381**	4,737
	16,777	5,040
EARNINGS FROM OPERATIONS	**44,387**	31,062
Interest expense	**4,889**	4,440
Earnings before income taxes	**39,498**	26,622
Income taxes (note 16)	**14,130**	10,640
NET EARNINGS	**25,368**	15,982
Retained earnings, beginning of year	**44,212**	28,972
Dividends	**(742)**	(742)
RETAINED EARNINGS, END OF YEAR	**68,838**	44,212
BASIC AND DILUTED EARNINGS PER SHARE	**$2.39**	$1.51

Consolidated Balance Sheets

AS AT OCTOBER 31 ($000)	2003	2002
Current assets		
Cash	**8,279**	7,609
Accounts receivable	**16,042**	14,555
Merchandise inventories	**10,136**	9,616
Income taxes receivable (note 16)	**2,512**	11,281
Pre-need receivables, current portion (note 5)	**38,325**	36,605
	75,294	79,666
Pre-need receivables (note 5)	**408,132**	369,918
Crypts and niches	**30,653**	26,345
Cemetery land (note 6)	**30,211**	34,314
Fixed assets (note 7)	**148,997**	143,774
Goodwill (note 8)	**44,765**	45,136
Future income taxes (note 16)	**707**	3,481
Mortgages receivable (note 9)	**13,761**	752
Other assets (note 10)	**5,681**	5,792
	758,201	709,178
Current liabilities		
Accounts payable and accrued liabilities	**29,186**	23,928
Long-term debt, current portion (note 12)	**2,797**	3,408
	31,983	27,336
Deferred revenue (note 14)	**497,627**	466,054
Long-term debt (note 12)	**80,367**	93,359
Other liabilities	**6,887**	5,718
	616,864	592,467
DERS' EQUITY		
Share capital (note 15)	**72,499**	72,499
Retained earnings	**68,838**	44,212
	141,337	116,711
	758,201	709,178

On behalf of the Board,

DANIEL J. SCANLAN, *Director*

RICHARD D. INNES, *Director*

Consolidated Statements of Cash Flows

YEARS ENDED OCTOBER 31 ($000)	**2003**	2002
CASH PROVIDED BY (USED FOR)		
OPERATING ACTIVITIES		
Net earnings	**25,368**	15,982
Add (deduct) items not affecting cash from operating activities:		
Depreciation	**7,688**	7,394
Gain on disposal of assets (note 19)	**(16,010)**	(453)
Provision for asset impairment (note 19)	**1,614**	150
Future income taxes	**4,959**	3,279
Additions to developed land, crypts and niches	**(12,503)**	(11,783)
Developed land, crypt and niche cost of sales	**7,821**	6,878
Net change in other operating balance sheet items (note 18)	**3,393**	(10,877)
	22,330	10,570
INVESTING ACTIVITIES		
Purchases of fixed assets	**(13,112)**	(13,126)
Additions to cemetery land held for future development (note 19)	**(83)**	(1,521)
Acquisitions (note 19)	**(673)**	-
Proceeds on disposal of assets (note 19)	**6,553**	1,706
	(7,315)	(12,941)
FINANCING ACTIVITIES		
Repayments of long-term debt	**(13,603)**	(571)
Dividends	**(742)**	(742)
	(14,345)	(1,313)
INCREASE (DECREASE) IN CASH	**670**	(3,684)
Cash, beginning of year	**7,609**	11,293
CASH, END OF YEAR	**8,279**	7,609

SUPPLEMENTARY INFORMATION

Income taxes paid	**6,623**	6,488
Interest paid	**4,928**	4,509

F OPERATIONS

Arbor Memorial Services Inc. (the "Company") provides products and services in the death care industry in Canada. Through its subsidiaries and ultimately its branch locations, the Company offers a complete line of cemetery and funeral merchandise and services. As at October 31, 2003, the Company owned and operated 41 cemeteries, 27 crematoria and 87 funeral homes and had an interest in another 4 funeral homes.

The Company sells its cemetery and funeral products and services on both an at-need and a pre-need basis. The Company is required by provincial regulation to deposit specific amounts, received in respect of pre-need contracts, into trust or with third-party insurers under group annuity programs, pending the delivery of products and services. Upon delivery of the products and services, the Company is entitled to receive related amounts placed into trust and accumulated investment income thereon. In respect of interment rights, the Company is required to deposit into care funds amounts specified by provincial regulation. The investment income from the care funds is available to the Company to defray the costs of ongoing care and maintenance of cemeteries, mausolea and columbaria. Although the Company is entitled to the investment income earned, the care funds themselves are not assets of the Company.

ACCOUNTING POLICY

Impairment of long-lived assets

Effective November 1, 2002, the Company early-adopted the new accounting standard issued by the Canadian Institute of Chartered Accountants entitled "Impairment of Long-Lived Assets", which established new requirements for the recognition, measurement and disclosure of the impairment of long-lived assets.

Long-lived assets, which have been assessed as having carrying values that are not recoverable, are written down to estimated fair value. In determining the amount of an impairment loss, long-lived assets are grouped with other assets and liabilities at the lowest level for which cash flows can be identified.

As a result of the implementation of this new standard, the Company recognized an impairment loss of $0.8 million. The impairment loss was related to one cemetery operation and a portion of cemetery land held for future development at another cemetery. The loss in value of the cemetery operation was calculated using a discounted cash flow methodology and resulted from the continuing underperformance of the operation. An analysis of the cash flows of the cemetery land held for future development revealed that fair market value of the land was below carrying value. Of the $0.8 million impairment, $0.4 million was in fixed assets, and $0.4 million was in cemetery land held for future development.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These consolidated financial statements include the accounts of the Company and all corporations that it controls. Investments in associated corporations, in which the Company has significant influence, are accounted for by the equity method and included in other assets.

Recognition of revenue

Cemetery sales

i) At-need cemetery interment rights, merchandise and services

Sales of at-need cemetery interment rights, merchandise and services are recognized as revenue at the date of delivery.

ii) Pre-need cemetery interment rights

Sales of pre-need cemetery interment rights and their related costs are deferred and recognized when a minimum percentage of the interment right sales price has been collected.

Some contracts for the sale of pre-need cemetery interment rights can be cancelled by the customer prior to burial. Cancellation estimates have been provided for based on historical experience.

iii) Pre-need cemetery merchandise and services

Sales of pre-need cemetery merchandise and services and related costs are deferred and recognized when the merchandise is delivered or the service is performed.

Investment income on trusted funds related to these merchandise and services is deferred and recognized as sales revenue when the merchandise is delivered or the service is performed.

The Company has a merchandise storage program for pre-need cemetery sales, whereby certain merchandise is purchased after it has been fully paid by the customer and stored for the customer until required for use. Once the merchandise has been purchased and stored for the customer, the Company is allowed to withdraw the related funds from trust in accordance with provincial legislation. Certain types of merchandise are considered delivered for the purpose of revenue recognition once the merchandise is provided by the supplier and either installed in or on the customer's burial space or stored at third-party facilities. The cost of the merchandise that has been purchased and stored for customers but does not qualify to be recognized in revenue is included as an offset to deferred revenue on the balance sheet.

Funeral sales

Sales of at-need funeral merchandise and services are recognized as revenue at the date of delivery. Sales of pre-need funeral merchandise and services and their related costs are deferred and recognized in earnings when the merchandise is delivered or the service is performed. Investment income on trusted funds related to these merchandise and services is deferred and recognized as revenue when the merchandise is delivered or the service is performed.

Investment and other income

A portion of the proceeds from the sale of cemetery interment rights is required by provincial law to be paid into care trust funds. Investment income related to these care trust funds is recognized by the Company as earned by the funds and is used to defray cemetery maintenance costs, which are expensed as incurred.

All or a portion of the proceeds from cemetery and funeral merchandise or services sold on a pre-need basis are either deposited into trust or with third-party insurers under group annuity programs, at the direction of the customer and to the extent required by provincial legislation. The Company receives fees on the deposit of pre-need cemetery and funeral funds under the trust and group annuity programs. These fees are recognized as received, net of an allowance for those fees subject to refund.

Finance charges

Finance charges on the uncollected balance of instalment accounts receivable are collectible and included in income over the term of the sales agreement.

Obtaining costs on pre-need contracts

Costs incurred to obtain new pre-need cemetery and pre-need funeral contracts are deferred and recognized when the related sales of interment rights, merchandise and services are recognized as revenue. Deferred obtaining costs include only those costs that vary with and are directly related to the acquisition of new pre-need contracts. Deferred obtaining costs are netted against deferred revenue on the balance sheet.

Valuation of assets and liabilities

Accounts receivable

Accounts receivable represent amounts due from customers related to at-need cemetery and funeral contracts and miscellaneous current receivables.

Merchandise Inventories

Merchandise inventories are carried at the lower of cost, determined on a first-in, first-out basis, and net realizable value.

Pre-need receivables

Pre-need receivables represent instalment accounts receivable due from customers related to pre-need cemetery and funeral contracts and amounts that will be received by the Company from trust or from third-party insurers under group annuity programs upon delivery of pre-need merchandise and services.

Instalment accounts receivable are recorded net of unearned finance charges, a provision for cancellations and amounts payable in respect of care funds.

The amounts due from trust are recorded at cost, less a provision for loss in respect of individual investments where market value is below cost and this decline appears to be other than temporary. The amounts due to the Company under the group annuity programs represent the value that would be received if the merchandise or services under the contracts were delivered or performed at the date of the balance sheet.

Crypts and niches

Crypts and niches are carried at the lower of cost and net realizable value.

Cemetery land

Cemetery land is recorded at the lower of cost, which includes development costs, and net realizable value.

Fixed assets

Fixed assets are recorded at cost and are depreciated using the straight-line method over their estimated useful lives as follows:

Buildings	40 years
Equipment and furniture	3 to 10 years
Automotive equipment	7 to 10 years
Leasehold improvements	over term of lease
Other assets	10 to 25 years
Property under capital lease	40 years

The Company defers software development costs and amortizes these costs over the estimated useful life of the software.

Construction in progress is not depreciated. Upon completion of these projects, the assets are reclassified to one of the above categories and depreciation commences.

Goodwill

Goodwill for each reporting unit is reviewed by comparing the carrying value and the fair value of that reporting unit on an annual basis in September, or more frequently if impairment indicators arise, to determine if an impairment loss should be recognized. A provision is made for any goodwill that is considered impaired.

Future income taxes

Future income tax assets and liabilities are measured using substantively enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the period of substantive enactment.

Deferred revenue

Deferred revenue represents sales of pre-need cemetery interment rights and pre-need cemetery and funeral merchandise and services that are deferred at the time the contracts are signed by the customer until they are recognized in revenue in accordance with the Company's revenue recognition policy.

Stock options

The Company accounts for stock options using the fair value method. Under the fair value method, compensation expense for stock options that are direct awards of stock is measured at fair value at the grant date using an option-pricing model and recognized over the vesting period.

Earnings per share (basic and diluted)

Earnings per share amounts have been calculated using the weighted average number of shares outstanding during the year of 10,595,243 (2002 – 10,595,243).

The calculations of diluted earnings per share include the potential issuance of shares under stock options that are dilutive. In determining whether options are dilutive or anti-dilutive, each issuance of options is considered separately using the treasury stock method.

There were no dilutive options outstanding during the current and prior year.

Use of estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company makes estimates in determining the useful lives of fixed assets, provisions for cancellation, repurchase, bad debts and asset impairment and future cash flows used in assessment of the carrying values of goodwill and fixed and other assets. Actual results may differ from those estimates.

Comparative figures

Certain of the comparative figures have been reclassified to conform to the current year's presentation.

4. INVESTMENT AND OTHER INCOME

($000)	2003	2002
Care funds	**6,935**	6,373
Pre-need funeral funds	**4,076**	3,682
Pre-need cemetery funds	**1,535**	1,358
Other	**746**	563
	13,292	11,976

5. PRE-NEED RECEIVABLES

($000)	2003	2002
Amounts due from cemetery trust funds	**138,376**	122,789
Amounts due from funeral trust funds	**172,759**	165,144
	311,135	287,933
Instalment accounts receivable	**68,723**	66,611
Amounts due from third-party insurers	**66,599**	51,979
	446,457	406,523
Less: current portion of instalment accounts receivable	**38,325**	36,605
	408,132	369,918

Trust funds held by third parties become available to the Company when the related merchandise and services have been delivered. Amounts due from cemetery and funeral trust funds consist of investments with fixed and floating interest rates and equity securities as follows:

	Book Value		Fair Value	
($000)	2003	2002	2003	2002
Cash and term deposits	**183,931**	171,315	**185,850**	173,344
Bonds	**110,683**	100,621	**113,787**	104,040
Equities	**13,512**	12,988	**15,362**	13,466
Equity fund	**3,009**	3,009	**3,396**	3,439
	311,135	287,933	**318,395**	294,289

The cash and term deposits had a weighted average maturity and interest rate of 38 months and 4.1% respectively (2002 – 37 months and 4.4%). The bonds had a weighted average maturity and interest rate of 5 years and 5.9% respectively (2002 – 5 years and 6.0%). Due to interest rate changes, the Company may realize gains and losses on the disposal of term deposits or bonds if sold before their maturity.

Instalment accounts receivable are collectible as follows:

($000)	**2003**	2002
1st year	**38,325**	36,605
2nd year	**17,505**	16,817
3rd year	**8,205**	8,337
4th year	**3,768**	3,834
5th year and thereafter	**920**	1,018
	68,723	66,611

Instalment accounts receivable was reduced by the amounts payable in respect of care funds of $7.5 million (2002 - $6.5 million). See Note 11 for further detail.

The fair value of the instalment accounts receivable at October 31, 2003 was approximately $69.0 million (2002 - $66.8 million). The carrying value of amounts due from third-party insurers approximates its fair value.

The Company enters into sales contracts with numerous consumers, including groups, but no one consumer or group accounts for a significant concentration of credit risk. Amounts due from third party insurers represent amounts due to the Company as beneficiary under insurance contracts entered into by its customers. These amounts are due under contracts with three insurance companies, with no single insurance company representing in excess of 10% of all amounts due under pre-need receivables.

TERY LAND

($000)	**2003**	2002
Fully or partially developed	**13,311**	12,890
Held for future development	**16,900**	21,424
	30,211	34,314

7. FIXED ASSETS

($000)	Cost		Accumulated Depreciation and Amortization		Net Book Value	
	2003	2002	**2003**	2002	**2003**	2002
Land	**33,482**	32,527	**-**	-	**33,482**	32,527
Buildings	**109,250**	106,283	**36,621**	34,106	**72,629**	72,177
Equipment and furniture	**40,907**	38,559	**30,679**	28,003	**10,228**	10,556
Automotive equipment	**20,329**	19,588	**15,210**	13,998	**5,119**	5,590
Leasehold improvements	**5,545**	5,503	**5,364**	5,244	**181**	259
Other assets	**25,576**	23,866	**8,359**	7,261	**17,217**	16,605
Property under capital lease	**1,999**	1,999	**226**	182	**1,773**	1,817
Construction in progress	**8,368**	4,243	**-**	-	**8,368**	4,243
	245,456	232,568	**96,459**	88,794	**148,997**	143,774

Included in "Construction in progress" was $4.0 million of deferred software development costs relating to the Company's new computer system called "Focus".

8. GOODWILL

The changes in the carrying amount of goodwill were as follows:

($000)	**2003**	2002
Opening balance, November 1	**45,136**	45,136
Impairment losses	**(376)**	-
Acquisition	**40**	-
Disposal	**(35)**	-
Closing balance, October 31	**44,765**	45,136

All of the goodwill at October 31, 2003 and October 31, 2002 was related to the funeral segment.

9. MORTGAGES RECEIVABLE

Included in mortgages receivable was the $13.5 million mortgage established on the sale of land described in Note 19. This mortgage earns interest at 5% and is due in 2007. The fair value of mortgages receivable approximates their carrying value at October 31, 2003 and 2002.

...ETS

Other assets includes the following:

($000)	2003	2002
Investments in associated corporations	**4,758**	5,025
Other	**923**	767
	5,681	5,792

Funds collected and deposited with third-party trustees for the care and maintenance of cemeteries total $124.4 million (2002 - $116.3 million) at carrying value and $129.6 million (2002 - $120.2 million) at quoted market value. The Company has the right to the income from these funds, to the extent that it has incurred costs in the care and maintenance of cemetery properties, which is included in investment and other income. The capital portion of these funds is required to be held in trust to fund the cost of ongoing care and maintenance.

The care funds are invested in accordance with the Company's investment guidelines, which are established to comply with legislative requirements for such funds. The funds are generally invested in medium term government and corporate bonds, which are held to maturity and earn income at fixed rates of return.

...M DEBT

($000)	2003	2002
Bank term loans	**81,120**	94,163
Notes payable	**105**	654
Obligation under capital lease	**1,939**	1,950
	83,164	96,767
Less: current portion	**2,797**	3,408
	80,367	93,359

The weighted average interest rate on the bank term loans was 5.3% (2002 – 4.6%). The weighted average interest rate on the notes payable was 4.7% (2002 – 4.6%). The interest rate on the capital lease was 6.5% (2002 – 6.5%).

The Company's credit facilities consist of revolving operating facilities and revolving term loans, both subject to annual renewal in the amount of $14.0 million (2002 - $14.0 million) and $125.0 million (2002 - $125.0 million) respectively. The term loans are subject to floating interest rates based on Bankers' Acceptances.

The operating facility is due on demand. At October 31, 2003, there were $0.8 million in letters of credit recorded against the operating facility (2002 - $0.4 million).

The revolving term loans are automatically converted to term loans repayable in quarterly reductions equal to between 0.625% and 3.125% of the term loan on the conversion date, starting either three months or 15 months from the date of conversion, depending on the facility. The earliest date of conversion is assumed to be the date the facility expires, April 30th, 2004. The Company may request annual extensions to the conversion date. The maturity date for repayment of the remaining principal balance is on the third anniversary of the conversion date for one term loan and on the fifth anniversary for the second one.

Security for the credit facilities consists of a demand debenture constituting a first floating charge over all the Company's present and future book debts, inventory, property and assets as well as a general assignment of book debts.

Fixed rate debt, including interest rate swaps, represented 55% (2002 – 48%) of the total amount of long-term debt outstanding.

The fair value of the Company's bank term loans approximates the carrying value given their floating rate nature. The carrying value of the remainder of the long-term debt is $2.0 million (2002 - $2.6 million) and the estimated fair value is $1.7 million (2002 - $2.1 million).

The amount of principal payable over each of the next five years and thereafter is as follows:

	($000)
2004	2,797
2005	6,750
2006	9,019
2007	55,496
2008	976
Thereafter	8,126
	83,164

ERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are utilized by the Company in the management of its interest rate exposure on long-term debt. The company does not enter into financial instruments for trading or speculative purposes.

Interest rate swap agreements are used as part of the Company's program to manage the fixed and floating interest rate mix of the Company's total debt portfolio and related overall cost of borrowing. The interest rate swap agreements involve the periodic exchange of payments without the exchange of the notional principal amount upon which the payments are based and are recorded as an adjustment of interest expense on the related debt instrument. The related amount payable to or receivable from counter-parties is included as an adjustment to accrued interest.

As of October 31, 2003, the Company's use of interest rate swap agreements was limited to five (2002 – four) interest rate swaps with a Canadian chartered bank, whereby the Company fixed a portion of its term loan financing at interest rates ranging from 4.6% to 6.2% plus a bank margin. At the end of the year, these swaps had a total notional amount of $43.8 million (2002 - $43.8 million). Two of the swaps amortize quarterly on a straight-line basis and will be fully amortized in 2008, while the remaining swaps expire in 2006, 2007 and 2008. Swap costs in 2003 were $1.1 million (2002 – $1.3 million).

The fair value of the interest rate swaps is estimated as the discounted unrealized gain or loss calculated based on the market price at October 31, 2003, which generally reflects the estimated amount that the Company would receive or pay to terminate the contracts at the balance sheet date. The estimated fair value of the interest rate swaps was a loss of $2.1 million (2002 – loss of $2.3 million). Losses due to non-performance by the counter-party are not anticipated due to their high credit standing.

RED REVENUE

($000)	2003	2002
Deferred pre-need cemetery sales	**280,696**	268,891
Deferred pre-need funeral sales	**279,372**	256,487
Deferred obtaining costs	**(52,194)**	(49,326)
Stored merchandise	**(10,247)**	(9,998)
	497,627	466,054

Stored merchandise represents merchandise purchased on behalf of customers under pre-need cemetery contracts and stored by the Company until the merchandise is delivered, and the related revenue is recognized. The merchandise is purchased when payment in full of the sales agreement is received.

15. SHARE CAPITAL

Authorized

Unlimited number of Preferred Shares
Unlimited number of Class A Voting Shares
Unlimited number of Class B Non-Voting Shares

Issued and outstanding

($000)		2003	2002
2,525,497	Class A Shares	**1,734**	1,734
8,069,746	Class B Shares	**70,765**	70,765
10,595,243		**72,499**	72,499

The Class A and Class B shares have identical rights and privileges, except that the Class A shares are voting. In certain circumstances, if an offer is made by the Company or a third party to purchase Class A shares from each holder in Ontario, each Class B share is convertible into one Class A share.

Share purchase options

Number of Shares	Exercise Price	Expiry	Exercise Date
112,300	$19.25	June 2, 2005	exercisable currently
45,000	$29.36	January 29, 2007	exercisable currently
131,300	$23.50	December 17, 2008	exercisable currently

No options were granted or exercised during 2003 or 2002.

16. INCOME TAXES

Income tax expense

Income tax expense for the years ended October 31 consisted of the following:

($000)	2003	2002
Current tax expense	**9,171**	6,658
Future income tax expense relating to the origination and reversal of temporary differences	**4,826**	4,405
Future income tax expense (benefit) resulting from change in tax rates	**133**	(423)
Income tax expense	**14,130**	10,640

Effective income tax rate

The reconciliation of the Company's effective income tax rate is as follows:

	2003	2002
	%	%
Combined basic federal and provincial income tax rate	**37.8**	40.0
Increase (decrease) in the basic tax rate resulting from:		
Settlement of prior years' income taxes	**(2.0)**	1.1
Large corporations tax	**1.1**	1.7
Dividends	**(1.1)**	(1.7)
Effect on future taxes of reduction in tax rates	**0.3**	(1.2)
Non-deductible amortization of excess of acquisition cost over book value	**0.3**	0.4
Other items	**(0.6)**	(0.3)
Effective income tax rate	**35.8**	40.0

The significant components of future income taxes are net deductible/taxable temporary differences amounting to approximately $4.0 million (2002 - $6.8 million) arising from: pre-need cemetery and funeral trust income whereby certain provincial jurisdictions have permitted or currently permit the withdrawal of earned income prior to the delivery of the merchandise and services; reserves claimed for amounts received or to be received for the future delivery of certain cemetery merchandise; and the excess of share acquisition costs over book value.

Settlement of prior years' income taxes

In 2002, the Company reached a settlement with Canada Customs and Revenue Agency ("CCRA") with respect to reserves claimed on the sale of interment rights for the fiscal years 1987 to 2000. Based on the initial notices of reassessment for the years 1987 to 1990, the Company had on deposit an estimate of the income tax and accumulated interest up to 2001, in the event that the Company was unsuccessful in defending its position. The settlement with CCRA was expected to result in the Company receiving $11.3 million in 2003, which included $4.7 million of interest income ($7.8 million of interest income net of $3.1 million of interest expense). The actual outcome, as compared to the original estimate, was an increase in net interest income of $2.4 million. At October 31, 2003, the Company had a receivable of $2.5 million, principally from the Ontario Ministry of Finance.

17. OPERATING LEASE COMMITMENTS

The Company is committed to the following minimum annual payments under operating leases over the next five years for premises and equipment:

	($000)
2004	1,636
2005	947
2006	343
2007	80
2008	11
	3,017

18. NET CHANGE IN OTHER OPERATING BALANCE SHEET ITEMS

($000)	**2003**	2002
Accounts receivable	**(1,302)**	(391)
Income taxes receivable	**8,769**	(3,844)
Merchandise inventories	**(582)**	290
Pre-need receivables	**(39,934)**	(36,023)
Accounts payable and accrued liabilities	**3,073**	(2,717)
Deferred revenue	**31,764**	28,930
Other liabilities	**1,169**	2,184
Other changes	**436**	694
	3,393	(10,877)

19. ACQUISITIONS, DISPOSITIONS AND ASSET IMPAIRMENT

Acquisitions

In 2003, the Company acquired a flower shop for cash consideration of $0.2 million and certain assets of a funeral home for cash consideration of $0.5 million. In 2002, the Company acquired a parcel of land for cemetery purposes for cash consideration of $1.4 million.

Dispositions

In 2003, the Company completed the sale of approximately 97 acres of land in Markham, Ontario for proceeds of $20.0 million. The sale proceeds were comprised of cash consideration of $6.5 million and vendor financing of $13.5 million for four years at an interest rate of 5%. The pre-tax gain on the sale was $15.9 million and the after-tax gain was $10.1 million. Also in 2003, the Company sold the assets of its equity interest in one funeral operation in Port Colborne, Ontario and closed a funeral operation in Quebec. In 2002, the Company disposed of two parcels of land for proceeds of $1.3 million.

Asset Impairment

In 2003, the Company early-adopted the new Impairment of Long-Lived Assets accounting standard and as a result identified impairment in certain cemetery assets of $0.8 million (see note 2). The Company also identified impairment in the carrying value of goodwill in three funeral home operations of $0.4 million and the carrying value of cemetery burial space inventory of $0.4 million for a total provision for asset impairment of $1.6 million. In 2002, the Company identified impairment in the carrying value of an investment in an associated corporation of $0.2 million.

Legal

In the course of its business, the Company from time to time becomes involved in various claims and legal proceedings. Litigation is subject to many uncertainties and the outcome of individual matters is not predictable. A provision for these claims has been recorded in the financial statements based on management's best estimate. However, should claims be settled for amounts over and above established reserves, the excess expense will be charged to operations as incurred.

Insurance

The Company carries insurance with coverages and coverage limits that it believes to be adequate. Although there can be no assurance that such insurance is sufficient to protect the Company against all contingencies, management believes that its insurance protection is reasonable in view of the nature and scope of the company's operations.

Environmental

The Company's operations are subject to numerous environmental laws, regulations and guidelines adopted by various governmental authorities in the jurisdictions in which the Company operates. On a continuing basis, the Company's business practices are designed to assess and evaluate environmental risk and, when necessary, conduct appropriate corrective measures.

21. GUARANTEES

The Company is contingently liable for the pre-need obligations of nine cemeteries that were sold in prior years. Five of these cemeteries were sold by the Company in fiscal 1999 and 2000. The Company's best estimate of its maximum potential exposure for these five cemeteries is the amount of pre-need funds in trust at the time of sale, which was $1.9 million. The remaining four cemeteries were sold over 10 years ago and the Company is unable to quantify the maximum potential exposure. In the event of a claim, the Company would have access to underlying trust funds to satisfy the pre-need obligation. No claims have ever been submitted to the Company related to any of the pre-need obligations of previously sold cemeteries.

The Company's by-laws provide for indemnification of its officers and directors against litigious claims arising from their duties as officers and directors of the Company.

22. SEGMENT DISCLOSURE

The Company has three reportable segments: cemetery, funeral and corporate. The cemetery segment sells interment rights and cemetery merchandise and services. The funeral segment sells funeral merchandise and services. The corporate segment's responsibilities include strategy development, human resource management, capital investment decisions and performance monitoring of the cemetery and funeral operations.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates performance based on earnings from operations.

The Company's reportable segments are strategic business units that offer different products and services. The nature of these products and services overlap in some instances in the cemetery and funeral segments. However, these segments are managed separately and have different regulatory requirements.

All of the Company's revenues are derived in Canada and all of the Company's capital assets and goodwill are located in Canada.

Industry segments ($millions)

	Cemetery		Funeral		Corporate		Consolidated	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002
Sales	**82.6**	80.2	**84.4**	81.9	**0.6**	0.6	**167.6**	162.7
Investment income	**8.5**	7.7	**4.3**	4.1	**0.5**	0.2	**13.3**	12.0
Revenue	**91.1**	87.9	**88.7**	86.0	**1.1**	0.8	**180.9**	174.7
Depreciation and amortization	**2.6**	2.5	**4.2**	4.0	**0.9**	0.9	**7.7**	7.4
Earnings (loss) from operations before other income (expenses)	**13.1**	13.1	**25.7**	25.1	**(11.2)**	(12.2)	**27.6**	26.0
Other income (expenses)	**14.7**	0.4	**(0.3)**	(0.1)	**2.4**	4.7	**16.8**	5.0
Earnings from operations	**27.8**	13.5	**25.4**	25.0	**(8.8)**	(7.4)	**44.4**	31.1
Interest expense	**-**	-	**-**	-	**4.9**	4.4	**4.9**	4.4
Identifiable assets [1]	**308.6**	280.9	**419.9**	402.3	**29.7**	26.0	**758.2**	709.2
Capital expenditures	**6.5**	3.8	**6.1**	6.3	**1.2**	3.0	**13.8**	13.1
Developed land, crypt and niche additions	**12.5**	11.8	**-**	-	**-**	-	**12.5**	11.8
Cemetery land held for future use additions	**0.1**	1.5	**-**	-	**-**	-	**0.1**	1.5
Current year total pre-need sales [1][2]	**65.0**	62.5	**44.4**	43.1	**-**	-	**109.4**	105.6

[1] Identifiable assets and pre-need sales for 2002 were restated to conform with the current year's presentation.

[2] Current year total pre-need sales represents pre-need cemetery and funeral contracts written in the year. Some of these sales are deferred and recognized in revenue when the merchandise is delivered or the service is provided.

Unaudited Quarterly Financial Information

($000)	2003 Fiscal quarters ended Jan-31	Apr-30	Jul-31	Oct-31	Year ended Oct-31
Sales	**41,005**	**40,198**	**42,213**	**44,191**	**167,607**
Investment and other income	**2,981**	**3,232**	**3,406**	**3,673**	**13,292**
Revenue	**43,986**	**43,430**	**45,619**	**47,864**	**180,899**
Expenses	**36,707**	**36,932**	**39,695**	**39,955**	**153,289**
Earnings from operations before other income (expenses)	**7,279**	**6,498**	**5,924**	**7,909**	**27,610**
Other income (expenses)	**4**	**39**	**15,932**	**802**	**16,777**
Interest expense	**1,298**	**1,243**	**1,240**	**1,108**	**4,889**
Earnings before income taxes	**5,985**	**5,294**	**20,616**	**7,603**	**39,498**
Income taxes	**2,289**	**2,020**	**7,390**	**2,431**	**14,130**
Net earnings for the period	**3,696**	**3,274**	**13,226**	**5,172**	**25,368**
Basic earnings per share [1]	**$0.35**	**$0.31**	**$1.25**	**$0.48**	**$2.39**
Basic earnings per share excluding unusual items [2]	**$0.35**	**$0.31**	**$0.27**	**0.38**	**$1.31**

($000)	2002 Fiscal quarters ended Jan-31	Apr-30	Jul-31	Oct-31	Year ended Oct-31
Sales	40,423	41,161	40,743	40,373	162,700
Investment and other income	2,802	3,112	2,945	3,117	11,976
Revenue	43,225	44,273	43,688	43,490	174,676
Expenses	35,480	35,980	38,433	38,761	148,654
Earnings from operations before other income (expenses)	7,745	8,293	5,255	4,729	26,022
Other income (expenses)	8	28	18	4,986	5,040
Interest expense	1,171	1,048	1,076	1,145	4,440
Earnings before income taxes	6,582	7,273	4,197	8,570	26,622
Income taxes	2,832	3,068	1,745	2,995	10,640
Net earnings for the period	3,750	4,205	2,452	5,575	15,982
Basic earnings per share [1]	$0.35	$0.40	$0.23	$0.53	$1.51
Basic earnings per share excluding unusual items [2]	$0.35	$0.40	$0.23	$0.23	$1.21

(1) All earnings per share figures presented are applicable to both Class A and Class B shares. Diluted earnings per share do not differ from basic earnings per share.

(2) Unusual items consist of other income (expenses) in both years and the impact of future tax rate changes in 2002

Five Year Statistical Review

YEARS ENDED OCTOBER 31 ($000)	**2003** (52 weeks)	2002 (52 weeks)	2001 (52 weeks)	2000 (52 weeks)	1999 [1] (53 weeks)
IINGS					
Revenue	**180,899**	174,676	168,510	160,009	165,192
Earnings from operations before other income (expenses)	**27,610**	26,022	24,073	21,224	28,530
Other income (expenses)	**16,777**	5,040	(1,059)	638	(7,855)
Earnings before income taxes	**39,498**	26,622	17,343	15,606	14,688
Net earnings	**25,368**	15,982	7,193	6,746	3,808
SH FLOW					
Provided by (used for)					
Operating activities	**22,330**	10,570	14,587	15,671	12,357
Investing activities	**(7,315)**	(12,941)	(6,281)	(7,559)	(24,687)
Financing activities	**(14,345)**	(1,313)	(2,576)	(4,847)	14,504
FINANCIAL POSITION					
Working capital	**43,311**	52,330	37,649	33,332	30,045
Pre-need receivables	**446,457**	406,523	376,930	341,513	N/A
Pre-need funds and merchandise	**N/A**	N/A	N/A	N/A	277,968
Total assets [3]	**758,201**	709,178	668,252	639,011	631,155
Long-term debt	**83,164**	96,767	97,338	99,172	103,322
Shareholders' equity	**141,337**	116,711	103,616	97,165	174,664
Debt to equity ratio	**0.59:1**	0.83:1	0.94:1	1.02:1	0.59:1
SHARE DATA					
Earnings ($ per share)					
Class A voting	**2.39**	1.51	0.68	0.64	0.36
Class B non-voting	**2.39**	1.51	0.68	0.64	0.36
Weighted average number of shares outstanding (000)	**10,595**	10,595	10,595	10,594	10,589
RESOURCES					
Cemeteries	**41**	41	40	40	44
Crematoria	**27**	27	27	27	26
Funeral homes [2]	**91**	93	92	95	96
Care funds ($000)	**124,379**	116,311	106,379	99,451	92,332

[1] New revenue recognition policies were adopted in 2001 with restatement of 2000. The 1999 figures have been presented under the Company's old revenue recognition policies.

[2] Arbor wholly-owned 87 of the 91 funeral homes and had an interest of 48% in the remainder.

[3] Total assets restated to conform with current year's presentation.

Stock Information

The Company's shares have been listed on the Toronto Stock Exchange since 1973. Information concerning its shares follows:

Class of Shares	A (Voting)	B (Non-Voting)
Stock Symbol	ABO.A	ABO.B
Cusip#	038916-10-2	038916-20-1
Market Price (at October 31):		
2003	**$14.50**	**$13.50**
2002	$12.50	$12.50
2001	$12.00	$12.50
2000	$ 7.00	$ 5.55
1999	$12.00	$12.10
1998	$18.00	$18.50

Company Information

DIRECTORS

Daniel J. Scanlan,
Chairman of Arbor Memorial Services Inc., Toronto, Ontario

Richard D. Innes,
President and Chief Executive Officer of Arbor Memorial Services Inc., Toronto, Ontario

Joseph M. Scanlan,
Vice-Chairman & Senior Vice-President, Sales of Arbor Memorial Services Inc., Toronto, Ontario

Paul F. Scanlan,
Regional Sales Director of Arbor Memorial Services Inc., Toronto, Ontario

Philip L. Wilson,
Corporate Director, Toronto, Ontario

Roger A. Hall,
Corporate Director, Oliver, British Columbia

John C. Clark,
Corporate Director and President and Chief Executive Officer of J.C. Clark Limited, Toronto, Ontario

Robert E. Rose,
Corporate Director and Partner, Clarke Henning LLP, Toronto, Ontario

Brian L. Zenkovich,
Corporate Director and Chief Executive Officer and Secretary of Winzen Properties Inc., Toronto, Ontario

Kenneth T. Rosenberg,
Corporate Director and Partner with Paliare Roland Rosenberg Rothstein LLP, Toronto, Ontario

OFFICERS AND CORPORATE MANAGEMENT

Daniel J. Scanlan,
Chairman

Richard D. Innes,
President and Chief Executive Officer

Gary R. Carmichael,
Vice-President, Government and Corporate Affairs

Iain A. Robb,
Corporate Secretary and Partner with Gowling Lafleur Henderson LLP, Toronto, Ontario

Gillian Mossington,
Assistant Secretary

Cemetery Senior Management

Joseph M. Scanlan,
Vice-Chairman and Senior Vice-President, Sales

Gary D. Rogerson,
Vice-President, Operations

Monica M. Flanagan,
Director of Administrative Services

Funeral Service Senior Management

John S. Earle,
Senior Vice-President, Funeral Service

Jeffrey S. Scott,
President, Trillium Funeral Service Corporation

John S. Doney,
Corporate Development

Marketing

Michael J. Scanlan,
Vice-President, Marketing

Human Resources

Michelle A. Gibbons,
Vice-President, Human Resources

Dana J. Dramnitzke,
Manager, Human Resources

Construction & Development

Stephen J. Rupert,
Vice-President, Construction and Development

Finance/Trust Administration

Brian D. Snowdon,
Vice-President and Chief Financial Officer

Laurel L. Ancheta,
Director of Finance

Pamela F. Collie,
Director of Trust Accounting

Information Services

Mike Ayres,
Director of Information Services

CEMETERY SALES

Robert Lang,
Director of Sales, Western Canada

Regional Management

Mark Agate,
South Western Ontario

Gary Boyce,
Western Canada

Doug Oliver,
Southern Ontario

Howard Hoidas,
Quebec

Charles Duchesnay,
Southeast Central Ontario

Brian G. MacMillan,
South Central Ontario

Leonard Marceau,
South Eastern Ontario

Paul F. Scanlan,
Southern Ontario

Peter Bancroft,
Atlantic Canada

CEMETERY OPERATIONS

Regional Management

William E. Grady,
Eastern Canada

Kenneth Gurney,
Niagara and Thunder Bay

Rodger W. Halden,
Western Ontario

P. Bradley Hunter,
Eastern Ontario

James Risbey,
Alberta and British Columbia

Bruce Slack,
Central Ontario

Terry Bokshowan,
Manitoba and Saskatchewan

CEMETERY ADMINISTRATION

Regional Management

Barbara E. Weatherdon,
Quebec, Eastern Ontario and Atlantic

Mary A. Brandoline,
Western Ontario

Patricia R. Vieira,
Toronto East

Sylvie A. Furtado,
Toronto West

Kathleen S. Mackay,
Saskatchewan, Manitoba and Thunder Bay

Teresa M. Bastin,
Edmonton

Diane E. Vinje,
Calgary and British Columbia

FUNERAL OPERATIONS

Regional Management

Terry A. Eccles,
South Western Ontario

David J. Scanlan,
Western Canada

Douglas A. MacDonald,
Atlantic Canada

Denis Marcoux,
Quebec and Acadia

Jerry Roberts,
Central and Eastern Ontario

Valerie Scott,
Funeral Planning, Ontario

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AUDITORS

Deloitte & Touche LLP

PRINCIPAL BANKERS

TD Bank Financial Group

Bank of Montreal

TRANSFER AGENT AND REGISTRAR

Computershare Trust Company of Canada
(416) 981-9633 or 1-800-663-9097
caregistryinfo@computershare.com

PRINCIPAL TRUSTEES OF FUNDS

TD Canada Trust Company

The Bank of Nova Scotia Trust Company

ANNUAL MEETING

The annual meeting of Arbor Memorial Services Inc. will be held in the Brulé Room,
The Old Mill, 21 Old Mill Road, Toronto, Ontario, on Thursday, February 19, 2004 at 10:00 a.m. (Toronto time).